

Biennial Performance Audit on Department of Finance – Evaluation of Controls over Recording Accounts Receivable and Monitoring of Receipts

Fiscal Years Ended June 30, 2024 and 2023
Josh Pasch, City Auditor
March 30, 2026



Contents

Executive Summary 1

Background Information 4

Objectives, Scope, and Methodology 9

Current Findings and Recommendations 11

APPENDIX I - Management’s Response to the Audit Report24



Office of the Comptroller Josh Pasch, City Auditor

100 N. Holliday St., Room 321
Baltimore, Maryland 21202

Honorable Bill Henry, Comptroller
and Other Members
of the Board of Estimates
City of Baltimore

Executive Summary

The Department of Audits (DOA) conducted a Biennial Performance Audit of the Department of Finance (DOF) for the Fiscal Years ended June 30, 2024 and June 30, 2023. The objective of our performance audit is to evaluate controls over recording accounts receivable (AR) for items billed and monitoring of receipts. The scope of the audit was focused on invoice types including Loans, Leases, Miss Utility, Payments in Lieu of Taxes (PILOTs), Conduits, Property Assessed Clean Energy (PACE) Loans, Special Benefit Tax Incremental Funding, and Water / Wastewater Industrial Surcharge for the fiscal years (FYs) 2024 and 2023. It did not include parts of the billing process that are handled outside of DOF or collection efforts performed by the Law Department.

Overall, we found that DOF had processes in place to record receivables, identify delinquent accounts, and perform collection activities. However, we identified that DOF has the opportunity to strengthen several controls to increase collection efficiency and improve accurate financial reporting. The findings discussed below primarily relate to the timeliness of collection efforts, treatment of aged receivables, billing accuracy, accounting treatment of loan receivables, follow-up on certain delinquent balances, and controls over invoice cancellations.

Finding I – Untimely Collection Efforts Reduce Collectibility of Delinquent Accounts

Although delinquent invoices were identified, follow-up actions were not consistently performed within expected timeframes. In several cases, final bill / legal notices and referrals to the Law Department were delayed or not performed. Delayed collection efforts reduce the likelihood of recovery and increase the risk that accounts age beyond the period in which legal action can be pursued.¹

¹ The statute of limitations in the state of Maryland is three years from the date of issuance for most types of debt.

Finding II – Invoices with Low Likelihood of Collection Remain in Accounts Receivable

Invoices remained in the City of Baltimore’s accounting system well beyond the period in which collection could reasonably be expected. The DOF does not have a formal write-off policy to address aged receivables, resulting in a significant portion of AR being unlikely to be collected.

Finding III – Invoices Were Issued Inconsistent with Underlying Contract Terms

Testing identified instances where recurring invoices for loans, leases, and PILOTs did not align with underlying contract documentation. These inconsistencies included missed billings, duplicate billings, incorrect billing amounts, billing beyond lease terms, and invoices approved without adequate supporting documentation.

Finding IV – Loan Receivables Are Not Recorded at Origination

Loans were not recorded as receivables in full when agreements became effective. Instead, receivables were recorded incrementally as invoices were issued, and principal repayments were recorded as revenue. This practice understates outstanding receivable balances and can overstate revenue.

Finding V – Insufficient Follow-Up on Outstanding Balances in the Miscellaneous Billing System

Although automated delinquent notices were generated for the Miscellaneous Billing System (MBSS) invoices, no additional follow-up procedures or escalation processes were in place for certain outstanding balances. As a result, delinquent accounts may remain unpaid for extended periods.

Finding VI – Invoices Were Cancelled Without Approval or Documented Justification

Invoices could be cancelled in Workday without supervisory approval or documented justification. In some cases, approved invoices were cancelled by personnel outside the billing function. This lack of oversight increases the risk of improper revenue reductions or misuse of system access.

Biennial Performance Audit on Department of Finance – Evaluation of Controls over Recording Accounts Receivable and Monitoring of Receipts

We made several recommendations to strengthen internal controls, including establishing written policies and procedures for collection activities, implementing a formal write-off policy for aged receivables, strengthening invoice review procedures, properly recording and tracking loan receivables, improving follow-up on delinquent accounts, and requiring approval and monitoring of cancelled invoices. To improve receivable accuracy, enhance collection effectiveness, and strengthen accountability over amounts owed to the City of Baltimore (City), we recommend the Director of Finance implement the recommendations made in the report. Management's responses are included in Appendix I (see page 24).

We wish to acknowledge DOF's cooperation extended to us during our audit.

Respectfully,



Josh Pasch, CPA
City Auditor, City of Baltimore
March 30, 2026

Background Information

The mission of DOF is to provide a full array of financial services to City agencies; collect and invest all monies due to the City; manage City debt; develop and implement the annual operating budget; manage the City’s self-insurance programs; maintain the City’s financial records and execute fiscal policy as established by the Board of Estimates.

The DOF comprises six bureaus: Accounting and Payroll Services (BAPS), Budget and Management Research (BBMR), Procurement, Revenue Collection (BRC), Risk Management, Treasury and Debt Management, as well as the Office of Fiscal Integrity and Recovery and the Grants Management Office (GMO). The DOF also oversees the City’s Print Shop and Surplus Property divisions.

Two of the six bureaus, BAPS and BRC, fall directly within the scope of the audit; the objective of which is to evaluate controls over recording AR for items billed and monitoring of receipts. The BAPS is responsible for the recording of AR, while BRC monitors outstanding AR and performs follow-up and collection activities.

The AR team within BAPS creates bills for a variety of different invoice types on behalf of other City agencies. These invoices are created using either Workday or MBSS. For Workday, these invoices include Landfill, Loans, Leases, Miss Utility, Permits, Special Events, and PILOTs. For MBSS, the AR team creates bills for several Minor Privilege permit types, PACE Loans, Demolition, Special Benefit Tax Incremental Funding, and Water / Wastewater Industrial Surcharge. The AR team also creates invoices for Conduit billing, which is done in both Workday and MBSS, depending on the customer.

As part of our planning activities for the audit, we identified a subset of the invoice types above that we included in our scope, using a variety of factors, including the size and frequency of billing, how much of the invoices issued during the audit period were still outstanding, coverage from other DOA projects, and an evaluation of qualitative risks based on inquiries with stakeholders across the City. As a result, we narrowed our scope to include only Loans, Leases, Miss Utility, PILOTs, Conduits, PACE Loans, Special Benefit Tax Incremental Funding, and Water / Wastewater Industrial surcharge.

Biennial Performance Audit on Department of Finance – Evaluation of Controls over Recording Accounts Receivable and Monitoring of Receipts

Table I

Selected Workday Billing Types (Rounded)

FY2024

Invoice Type	Number of Bills	Number of Bills Unpaid	Original Balance	Unpaid Balance	Unpaid (Percentage)
Conduit ¹	2	1	\$1,518,576	\$18,576	1.22
Leases	495	126	7,925,560	981,032	12.38
Loans	210	34	25,268,783	41,555	0.16
Miss Utility	10,817	2,677	2,667,532	617,851	23.16
Permits	1,009	75	6,101,369	27,609	0.45
PILOTs	205	48	\$9,789,016	\$227,938	2.33

FY2023

Invoice Type	Number of Bills	Number of Bills Unpaid	Original Balance	Unpaid Balance	Unpaid (Percentage)
Conduit ¹	2	1	\$28,231,975	\$124,502	0.44
Leases	557	139	8,384,638	866,390	10.33
Loans	197	32	83,571,829	404,869	0.48
Miss Utility	11,039	2,922	2,589,243	749,746	28.96
Permits	2,236	380	3,971,551	220,571	5.55
PILOTs	188	23	\$9,683,126	\$52,044	0.54

Source: Workday

Notes: Unpaid amounts are as of October 27, 2025. (Unaudited)

¹Only BGE conduit invoices are billed in Workday.

Biennial Performance Audit on Department of Finance – Evaluation of Controls over Recording Accounts Receivable and Monitoring of Receipts

Table II

Selected MBSS Billing Types (Rounded)

FY2024

Invoice Type	Number of Bills	Number of Bills Unpaid	Original Balance	Unpaid Balance	Unpaid (Percentage)
Conduits	75	28	\$8,310,441	\$1,436,890	17.29
PACE Loans	21	-	1,994,375	-	0.00
Industrial Surcharge	46	2	3,951,947	10,052	0.25
Special Benefit - TIF	24	1	\$4,901,325	\$13,183	0.27

FY2023

Invoice Type	Number of Bills	Number of Bills Unpaid	Original Balance	Unpaid Balance	Unpaid (Percentage)
Conduits	81	27	\$8,454,329	\$1,283,714	15.18
PACE Loans	21	-	1,994,442	-	0.00
Industrial Surcharge	29	-	2,442,968	-	0.00
Special Benefit - TIF	21	-	\$6,695,213	-	0.00

Source: MBSS data received from Baltimore City Information Technology (BCIT)

Note: Unpaid amounts are as of November 18, 2025, and are unaudited. According to BCIT, after three years, paid invoices are archived. As a result, the original population we received may not be complete as it would not account for any invoices created during the audit period that were paid off prior to November 2022. Invoices that are unpaid or partially paid are not archived.

Recording Receivables in Workday

Invoices including Miss Utility, Permits, and Conduit billing are done as needed at the request of the applicable city agency. For these invoice types, a contact at the applicable agency will request certain bills be created, the AR team will create and send out the bills via email or mail, and then the AR team informs the contact at the agency that this has been completed.

For Loans, Leases, and PILOTs, the AR team is notified by a contact at the applicable agency that billing will need to be performed over time, either for a fixed term or indefinitely. Along with this request, contract documentation is provided to outline the specific billing terms. An integral component of the billing process is the use of an internal tracking spreadsheet for capturing billing information extracted from the underlying contract documentation. This is necessary for creating invoices in alignment with the contracts. For instance, the spreadsheet captures details including customer names and addresses, frequency of billing, billing amount, and expiration date, if applicable, as contained in the underlying contract. When invoices are created in Workday, attachments are uploaded to support the monthly billing and they are sent for supervisory approval, where the attachments are reviewed before the invoices are approved. When invoices are approved in Workday, receivables are automatically created by the system.

Recording Receivables in Mainframe (MBSS)

Billing types processed through MBSS include PACE bills, Conduit, industrial surcharge bills, and special district taxing bills. As with some billing through Workday, billing through MBSS is completed on an as needed basis or at regular intervals at the request of other city agencies. The applicable city agency will always reach out when it is time to create the bills; therefore, AR team does not track billing over time. When bills are created in MBSS, they do not lead to the creation of receivables like in Workday, rather, journal entries are made once the bills are paid.

Delinquent Accounts Identification and Monitoring - Workday

The BRC is responsible for collecting all revenues owed to the City through taxes, fines, fees, and penalties. Services provided by the bureau include payments, licenses and permits, liens, refunds and adjustments, and property transfer. The Delinquent Accounts – Suits Section (Suits Section) at BRC has responsibility for identifying delinquent accounts and pursuing their collection.

Biennial Performance Audit on Department of Finance – Evaluation of Controls over Recording Accounts Receivable and Monitoring of Receipts

The Suits Section identifies and makes attempts to collect delinquent accounts for certain Workday invoices. Of these, we analyzed Loans, Leases Miss, Utility, and Permits. They do not perform collection procedures on PILOT or Conduit bills.

When a Workday bill becomes delinquent (outstanding more than 90 days), the Suits Section sends the customer a final bill and legal notice (FBLN). The FBLN details all delinquent invoices for that customer and informs them that further collection activities (including potential legal actions) may be taken by the City to collect the outstanding bill. Where a customer disputes the FBLN, the team attempts to resolve the dispute. The customer must provide evidence to support the bill was made in error or has already been paid, such as cancelled bank checks.

In situations where an outstanding bill, above a certain threshold amount, is not paid within 30 days after a FBLN is sent to the customer, the bill is forwarded to the Law Department for remedial actions. However, generally, legal proceedings may not be initiated for accounts outstanding for more than three years, as the debts will have become statute barred (Statute of Limitation). According to the *Annotated Code of Maryland, Courts and Judicial Proceedings Article, Section 5-101, Three-Year Limitation in General*, “a civil action at law shall be within three years from the date it accrues unless another provision of the Code provides a different period of time within which an action shall be commenced.”

Delinquent Accounts - MBSS

MBSS bills are considered delinquent 30 days after the date of billing, at which point they may begin to accrue interest and penalties. On the 45th day and 105th day after the bill date, the system automatically creates delinquent notices that are printed and mailed using the mailing information on the original bill.

Objective, Scope, and Methodology

We conducted our performance audit in accordance with *General Accepted Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The objective of our audit was to evaluate the controls over recording AR for items billed and monitoring receipts.

The scope of our audit was FYs 2024 and 2023. We also inquired about any changes to or improvements in the billing and monitoring of receipts processes implemented during FY 2025 that could impact our audit objective.

As discussed in the Background Information section of the report, we limited the scope to selected billing types within Workday and MBSS based on risk assessment procedures conducted during audit planning (see page 4).

To accomplish our objectives, we:

- Interviewed key personnel from DOF and conducted walkthroughs to gain an understanding of the billing and monitoring of receipts processes;
- Identified and assessed the significant process risks, as well as the controls implemented by DOF to mitigate the identified risks;
- Analyzed billing and receivable data extracted from Workday and MBSS to identify outstanding balances and prevalence of delinquency for different invoice types;
- Randomly selected samples of invoices to review supporting documentation to determine whether:
 - AR is automatically recorded in Workday once invoices are approved;
 - Delinquent accounts were identified and followed up on timely by the BRC Suits Sections, FBLN were issued, and referrals to the Law Department were made in accordance with established procedures;
 - Bills in the MBSS system are sent out 2nd and 3rd notices as the system is designed to do; and

Biennial Performance Audit on Department of Finance – Evaluation of Controls over Recording Accounts Receivable and Monitoring of Receipts

- Invoices cancelled in Workday were cancelled for legitimate reasons and with appropriate approval.
- Selected additional judgmental samples of Loans, Leases, and PILOT agreements to determine whether recurring billing was performed in accordance with contract terms and whether the tracking mechanism the AR team uses to perform billing is effective.

Current Findings and Recommendations

Finding I: Untimely Collection Efforts Reduce Collectibility of Delinquent Accounts.

The DOF has established collection procedures requiring issuance of FBLNs and referral of delinquent accounts to the Law Department for certain Workday invoice types when payment is not received within specified timeframes. These procedures are intended to promote timely recovery and preserve legal enforceability. During the audit period, the Suits Section reliably identified delinquent invoices using internally generated delinquent invoice reports. However, follow-up procedures were not consistently initiated in a timely manner, and referrals to the Law Department were not always made within established timeframes (see below). Untimely and / or unreliable collection efforts reduce the likelihood of recovery and create operational and financial risks, including reduced collections, delayed recovery of funds owed to the City, diminished deterrence effect for nonpayment, and accumulation of aged receivables requiring additional collection effort.

- **Final Bill / Legal Notices:** Of the 60 samples selected for testing, for 13, or approximately 22 percent, no FBLN was sent at all. Forty-two FBLNs were sent after 120 days.² The remaining five sample items were PILOT invoices, which the Suits Section is not required to perform collection procedures on.³

² The DOA judgmentally chose 120 days as a benchmark based off the knowledge that the Suits Section identifies delinquent accounts over 90 days once per month, meaning that collection procedures should begin at 120 days at a maximum.

³ According to the Suits Section, DOF and the Law Department jointly determined that the Law Department would handle any collections for PILOTs.

- **Referrals to Law Department:**

- Of the 42 sample items that did receive FBLNs, six, or approximately fourteen percent, were not referred to the Law Department for potential legal proceedings. Fourteen were referred to the Law Department, and 22 were not required to be referred because they: (i) were paid, (ii) were below the dollar threshold, or (iii) the Suits Section was otherwise instructed by the Law Department not to refer those invoices.⁴
- Of the 14 that were referred to the Law Department, seven, or 50 percent, were referred after the invoice was over 910 days old.⁵

In summary, we found that FBLNs were not consistently issued within expected timeframes after accounts became delinquent; some accounts eligible for referral to the Law Department were not referred; and collection actions were delayed beyond periods that support chances of recovery once referred to the Law Department. These delays occurred despite delinquent accounts being identified with sufficient time for timely follow-up by the Suits Section without exception.

During the audit period, staffing shortages significantly impacted collection operations. Collection responsibilities, specifically customer research, issuance of FBLNs, resolution of customer disputes, and referral to the Law Department were managed by a single staff member, limiting the team's ability to complete tasks timely. While this was a challenge for the majority of the audit period, staffing has since increased to three personnel.

Additionally, collection procedures rely on evolving and informal practices developed by the team, rather than comprehensive written policies and standardized timelines, increasing variability in the timeliness and accuracy of actions taken.

The Suits Section collection process includes sending a FBLN beginning 90 days after the first invoice is sent and referring accounts to the Law Department for possible litigation when balances over a certain threshold remain unpaid 30 days after final notice.

⁴ During the audit period, Miss Utility invoices were not referred to the Law Department if they remained uncollected. However, in Calendar Year 2025, the Law Department began accepting referrals for this type of invoice. While this is the only in-scope invoice type that was eligible for FBLN but not referral to the Law Department (during the audit period), the Suits Section informed us that there may be other occasions where the Law Department instructs them not to refer certain invoices or invoice types.

⁵ The DOA judgmentally chose 910 days as a benchmark based on the three-year statute of limitations, acknowledging that the Law Department would need lead time to compile and file for legal action. 910 days is approximately two and a half years.

Recommendation I: We recommend the Director of Finance:

- Establish and implement a formal (written, approved, and dated) policy and procedures explicitly defining actions to be taken in follow-up procedures and referral to the Law Department, including timelines of when these actions should be taken; and
- Train current and incoming staff using the above-mentioned policies and procedures.

Finding II: Invoices with Low Likelihood of Collection Remain in Accounts Receivable and Revenue Accounts.

Our review identified invoices remaining in AR beyond the period in which collection could reasonably be expected. The Suits Section may initiate collection attempts; however, legal action may not be initiated for accounts outstanding more than three years, and many invoices remain outstanding well beyond this period. For example, of the in-scope invoices outstanding as of June 30, 2024, approximately \$6 million (14 percent) were over three years old at the time.⁶ This includes invoices dating as early as 2010. This proportion has only grown over time. As of December 31, 2025, approximately \$8.5 million (37 percent) of outstanding AR was over three years old.⁷

While the City presents its financial statements using an allowance for uncollectible accounts, there is no standardized process for writing off individual accounts, leading to the continued reporting of these significantly aged accounts in Workday, the City’s accounting system.

Failure to remove or adjust uncollectible receivables creates financial reporting and operational risks, including:

- Overstated AR and revenue amounts;
- Inefficiencies caused by collection efforts on accounts unlikely to be recovered; and
- Challenges for staff attempting to decipher which accounts are worth pursuing with limited resources.

The City does not have a write-off policy. Adjustments based on collectibility are made on a case-by-case basis at the discretion of the Law Department or the receivable agency. When adjustments are made, the accounting for such is reflected in a direct adjustment of the owed balance on an individual invoice down to \$0, which is the same process as when invoices are reduced to \$0 when there are errors like duplicate billing, or if the bill was created for the wrong customer or wrong amount.⁸

⁶ Invoices with issued dates prior to July 1, 2021.

⁷ Invoices with issued dates prior to January 1, 2023.

⁸ This method of “writing off” accounts by making adjustments also means that it is not possible for the City to know the dollar value or frequency of accounts written off, as adjustments are often performed in the normal course of business.

Biennial Performance Audit on Department of Finance – Evaluation of Controls over Recording Accounts Receivable and Monitoring of Receipts

Governments are responsible for maintaining accurate financial records and ensuring receivables reflect amounts reasonably expected to be collected. US Generally Accepted Accounting Principles (GAAP) require governments to evaluate collectibility and adjust receivables when collection is not expected.

Additionally, according to the *Annotated Code of Maryland, Courts and Judicial Proceedings Article, Section 5-101, Three-Year Limitation in General*, “a civil action at law shall be within three years from the date it accrues unless another provision of the Code provides a different period of time within which an action shall be commenced”. This means that the City cannot expect to collect most debts older than three years using the judicial system.

Recommendation II: We recommend the Director of Finance establish and implement a formal (written, approved, and dated) write-off policy addressing delinquent receivables across revenue types.

Finding III: Invoices were Issued Inconsistent with Underlying Contract Terms.

When Loans, Leases, and PILOTs are provided to the AR team to begin billing, contract documentation is attached that outlines exactly how billing should be performed. Some examples of the data elements included in the documentation are: (i) the beginning and end of the term; (ii) frequency of billing; (iii) amount of each bill; (iv) whether the amount billed will change over time; and (v) customer information such as name and address.

Audit testing identified multiple instances where invoices were billed inconsistent with the supporting documentation (see below). Billing inconsistencies create financial, operational, and public trust risks, including: (i) underbilling and reduced revenue collections; (ii) overbilling that may damage relationships with residents and businesses; and (ii) undue administrative burden on personnel required to investigate and correct errors.

- **PILOTs** - Of the 30 PILOTs selected for testing:
 - Seven had at least one month during the audit period that was not billed at all. For one of these seven PILOTs, DOF did not bill the taxpayer from July 2011 to when the PILOT was reissued in May 2025.⁹
 - One had duplicated billing.
 - Two were not billed the correct amount.
 - Four are continuing to be billed using old information.¹⁰
- **Loans** - Of the 10 loans selected for testing, four did not have the proper allocation of principal and interest during the month selected for testing.

⁹ For many Payments in Lieu of Taxes (PILOTs), taxpayers are required to pay the lesser of the calculated PILOT amount or the taxes owed for the period. The DOF was also not able to provide evidence that taxes were paid for this taxpayer. The last instance of billing for this semiannual PILOT was for approximately \$25,000 in January of 2011. The total of the 28 missed billings for this PILOT is estimated at a total revenue loss of \$700,000 without adjusting for annual PILOT increases.

¹⁰ Many PILOT bill amounts are calculated based on self-reported financial information provided by the customer. According to most PILOT agreements, this amount is to be recalculated annually. E.g. PILOT is calculated as 10 percent of the prior year's self-reported rental income.

Biennial Performance Audit on Department of Finance – Evaluation of Controls over Recording Accounts Receivable and Monitoring of Receipts

- **Leases** - Of the 10 leases selected for testing:
 - Two were not billed the correct amount.¹¹
 - One did not increase rental payments over time as stipulated in the lease agreement; and
 - Two were billed beyond the end of the lease term without support for a renewal.

In some instances, DOA observed that the AR team identified billing errors and corrected them prior to the beginning of the audit. These corrections were made as a result of ad-hoc reviews the team does of the contract documentation. During these reviews, the team compares the contract information to the information captured in their internal tracking spreadsheet and invoices that have already been created. Audit testing showed that these reviews did not consistently prevent or timely detect billing inaccuracies.

Preventative and detective controls over billing accuracy are not operating effectively. While invoices are reviewed prior to approval, the review does not consistently verify invoice amounts against underlying agreements or current supporting documentation. Detective controls, including ad-hoc reviews and error corrections, occur irregularly and do not ensure timely detection of inaccuracies.

According to the *Standards for Internal Control in the Federal Government* (Green Book) issued by the Comptroller of United States (May 2025), “Control activities can be either preventive or detective. The main difference between preventive and detective control activities is timing, that is, when the control activity occurs within an entity’s operations. A preventive control activity is designed to avoid an unintended event or result before it occurs. A detective control activity is designed to discover and timely correct an unintended event or result after it occurs. The effectiveness of a detective control activity depends on timeliness of the corrective action to address the unintended event or result. Corrective action may address the event that occurred or may correct the deficiencies in the process that led to the event.”

¹¹ In addition to these two, DOA noted an additional two samples that were originally billed for the incorrect amount. However, these errors were identified and corrected by the AR team independently prior to the beginning of the audit. For both of these two that were initially billed for the incorrect amount and then corrected later, the invoice was approved for an amount that did not tie to the support provided in Workday.

Recommendation III: We recommend the Director of Finance develop and implement a formal (written, approved, and dated) policy and procedures requiring:

- Detailed review of invoice amounts against underlying contract support prior to issuance; and
- Regular reviews of the internal tracking spreadsheet and previously issued invoices against underlying contract documentation.

Finding IV: Loan Receivables are Not Recorded at Origination, Resulting in Misstated Receivables and Revenue.

Our review of the billing process indicated that loans administered through AR team are not recorded as a receivable for the full outstanding loan balance at the inception of the agreement. Instead, invoices are generated periodically based on payment schedules, and receivables are recorded incrementally as amounts are billed. Workday records receivables only when invoices are approved, and the billing team does not perform any tracking of the loan balance. There is no reconciliation of the total amounts billed / paid against the original loan balance to determine whether the full balance was billed at the end of the loan term. Additionally, when invoices are approved, both principal and interest components are recorded as revenue.

The above practice creates financial reporting and revenue recognition issues, including:

- Understatement of outstanding receivables at any point in time;
- Underbilling if payment schedules are not accurately tracked; and
- Overstatement of revenue when principal payments are recorded as revenue.

The current billing methodology treats each scheduled loan payment as a standalone billing event rather than recording and tracking the full loan balance as a receivable. Because the financial system records receivables only when invoices are issued, principal repayments are processed through periodic billings rather than applied against an established loan receivable balance.

US GAAP requires receivables to be recognized when an enforceable claim exists, and revenue is to be recognized in accordance with the underlying substance of the transaction. For loans, the principal amount represents receivable, while repayments reduce the receivable balance; only interest constitutes revenue.

Recommendation IV: We recommend the Director of Finance:

- Record the full principal amount of each loan as a loan receivable at the time the loan agreement becomes effective;
- Apply subsequent payments against the receivable balance, with only interest recognized as revenue; and
- For loans that are already being billed, reconcile the total of all principal payments against the original loan balance to ensure it has been paid in full once the loan has reached the end of its term.

Finding V: Insufficient Follow-Up on Outstanding Balances in the Miscellaneous Billing System Contributed to Revenue Shortages.

The MBSS bills become delinquent after 30 days, and delinquent notices are automatically generated at 45 and 105 days. However, beyond these automated notices, there is no additional follow-up or escalation process for outstanding balances.

As of November 18, 2025, \$2,743,838 in receivables from the audit period remained outstanding. Outstanding balances remain uncollected, resulting in reduced revenue collections and increased risk that receivables become uncollectible over time. Ineffective follow-up may also shift the financial burden to compliant taxpayers and weaken overall collection effectiveness.

A control gap exists in the MBSS collection process. Accounts that are not eligible for tax sales do not receive additional follow-up beyond automated delinquent notices. There is no routine manual review, escalation, or referral to the Law Department, and no detailed account analysis to determine appropriate collection actions.

The City of Baltimore Charter, Article VII, §12, Department of Finance: *Collections, deposits, withdrawals, etc.* requires the Director of Finance to receive, collect, and account for all moneys due to the City.

According to the Baltimore City 10-Year Financial Plan Initiative 3.27, “Baltimore City will strengthen its revenue collection processes to ensure timely and accurate payment of taxes, fees, and fines. This initiative includes evaluating the use of collection agents for delinquent accounts and streamlining customer communication. By pursuing overdue revenues more effectively and reducing collection backlogs, the City will increase compliance, improve cash flow, and enhance fairness by reducing the burden on compliant taxpayers.”

Recommendation V: We recommend the Director of Finance establish and implement a formal (written, approved, and dated) policy and procedures including follow-up procedures for delinquent MBSS accounts and escalation steps such as manual account review, referral criteria, and enhanced collection actions.

Finding VI: Invoices were Cancelled Without Approval or Documented Justification.

We identified 2,774 in-scope invoices totaling \$82,702,738 that were created during the audit period and were subsequently cancelled. We randomly selected a sample of 60 and found that 40 of the invoices selected, or approximately 67 percent, were already approved at the time they were cancelled. In certain instances, cancellation of approved invoices was performed by personnel outside of the billing function, including staff from other departments such as the Department of Real Estate and Department of Housing and Community Development; these invoices originated with the AR team at BAPS. Workday retains record of cancelled invoices; however, it does not require approval to cancel an invoice or evidence the reason for cancellation.

Although the audit did not identify suspected fraud¹², the ability to cancel invoices without approval or documented justification creates an opportunity for improper revenue reductions or concealment of unauthorized adjustments. This control weakness increases the risk of revenue loss, circumvention of established approval controls, and potential misuse of system access.

For example, an employee with system access could cancel a valid invoice after it has been approved and issued, thereby eliminating the receivable balance without detection. In exchange for personal benefit, or to conceal an unauthorized agreement with a customer, the employee could prevent collection of amounts owed to the City. Because cancellations do not require approval, documented justification, or routine review, such activity may not be detected in a timely manner or at all.

The Workday application lacks control activities governing invoice cancellation. While Workday requires approval for invoice creation and adjustments, cancellations can be performed without supervisory approval, documentation, or independent review.

¹² The *Government Auditing Standards* state that:

- “Fraud involves obtaining something of value through willful misrepresentation. Whether an act is, in fact, fraud is determined through the judicial or other adjudicative system and is beyond auditors’ professional responsibility.”
- “Auditors may obtain information through discussion with officials of the audited entity or through other means to determine the susceptibility of a program to fraud, the extent to which the audited entity has implemented leading practices to manage fraud risks, the status of internal controls the audited entity has established to prevent and detect fraud, or the risk that officials of the audited entity could override internal control. An attitude of professional skepticism in assessing the risk of fraud assists auditors in assessing which factors or risks could significantly affect the audit objectives.”

Biennial Performance Audit on Department of Finance – Evaluation of Controls over Recording Accounts Receivable and Monitoring of Receipts

The Green Book requires agencies to design control activities that enforce segregation of duties and reduce the risk of error or fraud. Management needs to separate control activities related to authority, custody, and accounting of operations to achieve adequate segregation of duties.

Recommendation VI: We recommend the Director of Finance:

- Require approval in Workday for cancellation of invoices that have already been approved and document that approval;
- Designate personnel to periodically review cancelled invoices and document those reviews; and
- Establish and implement formal (written, approved, and dated) policy and procedures to provide guidance on the requirements for approval documentation and periodic review of cancelled invoices.

APPENDIX I - Management’s Response to the Audit Report

Date: April 20, 2026

To: Josh Pasch, City Auditor

Subject: Management Response to Audit Report:
*Biennial Performance Audit Report on Department of Finance
for the Fiscal Years Ended June 30, 2024 and 2023*

Our responses to the audit report findings and recommendations are as follows:

Recommendation I

We recommend the Director of Finance:

- Establish and implement a formal (written, approved, and dated) policy and procedures explicitly defining actions to be taken in follow-up procedures and referral to the Law Department, including timelines of when these actions should be taken; and
- Train current and incoming staff using the above-mentioned policies and procedures.

Management Response/Corrective Action Plan

Agree **Disagree**

BRC will develop standard operating procedures and policies to address the findings, including guidance for agencies to attach completed backup documentation to Workday invoices to eliminate repeated requests and reduce delays in referral decisions, a requirement for agencies to review their accounts to confirm which required active collection work, and define which parameters should trigger a referral to the Law Department. This will enable BRC to avoid spending time on accounts that have already been paid, were billed in error, or required adjustments. Because the City’s FBLN processes remain fully manual, research and documentation review substantial staff time. To address this in the short term, BRC will implement LexisNexis batch search, a service which will automate address and business-status verification and streamline research activities.

Implementation Date: August 1, 2026

Action Plan Milestone(s):

- Implement LexisNexis batch
- Develop and finalize SOPs and policy guidance documents
- Host refresher training for BRC staff and agencies

Implementation Date: August 1, 2027

Action Plan Milestone(s) – Long Term:

- Meet with each billing team to align on FBLN processes – February 2, 2027
- Coordinate with BCIT to begin to automate the FBLN process – March 4, 2027
- Provide requirements to BCIT – May 3, 2027
- Follow up on progress and adjust output as needed – June 2, 2027
- Launch FBLN and collections process automation as part of the City's TaxSmart initiative to modernize the City's tax system – August 4, 2027

Responsible Personnel:

- Ed Scrivener, Delinquent Accounts Manager, BRC
- Karen Daugherty, Customer Care Analyst Supervisor II, BRC
- Mary Keenan, Division Chief, Collections Practice Group, Law Department
- Wendy Barlow, Chief Solicitor, Collections Practice Group, Law Department

Recommendation II

We recommend the Director of Finance establish and implement a formal (written, approved, and dated) write-off policy addressing delinquent receivables across revenue types.

Management Response/Corrective Action Plan

Agree **Disagree**

BRC will implement policy, process, and system improvements to strengthen collections operations, including establishing a write-off policy, cleaning up inaccurate and uncollectible bills, and requiring agencies to review account accuracy. For example, the Bureau will enhance efficiency through automation of the FBLN and collections process, implementation of LexisNexis tools, and improved documentation practices (adding notes and supporting materials in the system). BRC will support these changes with continuous staff training and performance tracking to monitor productivity and identify issues.

Implementation Date: August 1, 2026

- Require agencies to review their accounts for accuracy; ensure supporting documents are uploaded and notes are added in the system to clarify issues; update policies and procedures; and provide additional and ongoing staff training.

Responsible Personnel:

- Ed Scrivener, Delinquent Accounts Manager, BRC
- Karen Daugherty, Customer Care Analyst Supervisor II, BRC
- Mary Keenan, Division Chief, Collections Practice Group, Law Department
- Wendy Barlow, Chief Solicitor, Collections Practice Group, Law Department

Recommendation III

We recommend the Director of Finance develop and implement a formal (written, approved, and dated) policy and procedures requiring:

- Detailed review of invoice amounts against underlying contract support prior to issuance; and
- Regular reviews of the internal tracking spreadsheet and previously issued invoices against underlying contract documentation.

Management Response/Corrective Action Plan

Agree **Disagree**

BAPS will draft a policy documenting how to properly establish and review bills, implement a formalized monthly and quarterly review of billing data to ensure accurate processing, provide continuous staff training to improve overall competencies, establish metrics to ensure proper establishment of bills, and bring on-board an AR manager who will be responsible for operational oversight and review.

Implementation Date: May 31, 2026 and ongoing

Action Plan Milestone(s):

- BAPS management will work with and train staff on proper establishment of bills.

Implementation Date: May 31, 2026

Action Plan Milestone(s):

- BAPS will develop a policy on the establishment of bills.
- BAPS will develop standard operating procedures on the establishment and review of bills.
- BAPS will hire and on-board additional AR staff.

Biennial Performance Audit on Department of Finance – Evaluation of Controls over Recording Accounts Receivable and Monitoring of Receipts

Implementation Date: June 30, 2026

Action Plan Milestone(s):

- BAPS will establish performance metrics on the accurate establishment of bills.

Implementation Date: December 31, 2026

Action Plan Milestone(s):

- BAPS will include performance metrics expectations in staff performance goals for the next performance period.

Responsible Personnel:

- William (Doug) Foster, Chief, BAPS
- Deborah Brandes, Accounting Systems Administrator, BAPS

Recommendation IV

We recommend the Director of Finance:

- Record the full principal amount of each loan as a loan receivable at the time the loan agreement becomes effective;
- Apply subsequent payments against the receivable balance, with only interest recognized as revenue; and
- For loans that are already being billed, reconcile the total of all principal payments against the original loan balance to ensure it has been paid in full once the loan has reached the end of its term.

Management Response/Corrective Action Plan

Agree **Disagree**

BAPS will communicate to all pertinent agencies that all approved loans should be sent to BAPS when a loan becomes effective, establish a mailbox where all approved loan documentation will be sent, draft a policy for loan management accounting treatment, and reconcile outstanding loan balances and adjust accordingly to reflect proper balances.

Implementation Date: May 31, 2026

Action Plan Milestone(s):

- BAPS will communicate to all agencies the proper channels for distribution of all approved loans.
- BAPS will create a mailbox for approved loan distribution.
- BAPS will draft a policy for loan management accounting.

Implementation Date: July 1, 2026

Action Plan Milestone(s):

- BAPS will issue the policy for loan management accounting.

Biennial Performance Audit on Department of Finance – Evaluation of Controls over Recording Accounts Receivable and Monitoring of Receipts

Implementation Date: September 15, 2026

Action Plan Milestone(s):

- BAPS will reconcile outstanding loan balances and adjust accordingly for accurate FY26 reporting.

Responsible Personnel:

- William (Doug) Foster, Chief, BAPS
- Deborah Brandes, Accounting Systems Administrator, BAPS

Recommendation V

We recommend the Director of Finance establish and implement a formal (written, approved, and dated) policy and procedures including follow-up procedures for delinquent MBSS accounts and escalation steps such as manual account review, referral criteria, and enhanced collection actions.

Management Response/Corrective Action Plan

Agree **Disagree**

BRC will transition non-liable billing from the mainframe to Workday so these bills can move through the collection process. BRC will also develop standard operating procedures to provide clear guidance on steps to take for staff.

Implementation Date: August 1, 2026

Action Plan Milestone(s):

- BRC will request a report from BCIT of non-liable bills that are delinquent and send FBLNs for all delinquent non-liable bills.
- Create guidelines for staff for how to manage delinquent MBSS accounts, including escalation steps (e.g. manual account review, referral criteria, and enhanced collection actions)

Implementation Date: August 1, 2027

Action Plan Milestone(s):

- Convert non-liable bills to Workday and issue non-liable bills in Workday.
- Automate the FBLN and collections process.

Responsible Personnel:

- Ed Scrivener, Delinquent Accounts Manager, BRC
- Karen Daugherty, Customer Care Analyst Supervisor II, Law Department
- Mary Keenan, Division Chief, Collections Practice Group, Law Department
- Law: Wendy Barlow, Chief Solicitor, Collections Practice Group

Recommendation VI

We recommend the Director of Finance:

- Require approval in Workday for cancellation of invoices that have already been approved and document that approval;
- Designate personnel to periodically review cancelled invoices and document those reviews; and
- Establish and implement formal (written, approved, and dated) policy and procedures to provide guidance on the requirements for approval documentation and periodic review of cancelled invoices.

Management Response/Corrective Action Plan

Agree **Disagree**

BAPS will limit access to cancel invoices to BAPS staff only, draft a policy and standard operating procedure on cancellation of invoices, establish a Cancel Invoice mailbox for all cancelled invoice requests to be submitted with documentation, and implement a regular management review to ensure invoices cancelled were appropriately approved and documented.

Implementation Date: May 31, 2026

Action Plan Milestone(s):

- BAPS will work with BCIT to limit access to the “cancel invoice” feature to identified BAPS staff.
- BAPS will draft a policy and standard operating procedures on cancelling invoices.
- BAPS will establish a mailbox for all “cancel invoices” requests.

Implementation Date: July 1, 2026

Action Plan Milestone(s):

- BAPS management will begin regular review of cancelled invoices for proper approval and documentation.

Responsible Personnel:

- William (Doug) Foster, Chief, BAPS
- Deborah Brandes, Accounting Systems Administrator, BAPS

AUDIT TEAM

Josh Pasch, CPA
City Auditor

Thandee Maung, CPA, CFE, CGFM, MBA
Deputy City Auditor

David Walton, CPA
Audit Manager

Sarah Plitzko, CPA, CFE
Audit Supervisor

Yemi Ogunsanya, CIA, CISA, CGFM, FCCA
Lead Auditor

Appleton Kamdoun, MBA
Staff Auditor